

MONASH UNIVERSITY

DEPARTMENT OF ACCOUNTING

ACC2100/ACF2100 FINANCIAL ACCOUNTING

IN-SEMESTER PRACTICE TEST

Test Duration 5 minutes reading and 60 minutes writing time

Number of Questions Three (3) Questions

ANSWER ALL QUESTIONS

AUTHORISED MATERIALS

CALCULATORS

☒ YES☐ NO

(Only calculators with an 'approved for use' Faculty label OR the HP10bII+ calculator are permitted)

INSTRUCTIONS

1. Ensure that your name and student identification number are properly entered below.
2. DO NOT remove any part of the test paper from the exam venue.

THIS PAPER IS TO BE HANDED IN AT THE END OF THE TEST

Name _____

Student Number _____

Tutor

Tutorial Time

Question One

a) What is a rights issue? Distinguish between a renounceable and non-renounceable rights issue. Explain the accounting treatment for a rights issue.

b) Read the question below and answer its requirement.

On 1 March 2016, ABC Ltd was registered and a prospectus was issued inviting applications for 1,000,000 ordinary shares at an issue price of \$4. The shares were payable \$2 on application and \$2 on allotment (due 30 April).

By 31 March 2016, applications had been received for 1,300,000 ordinary shares. On 1 April 2016, 1,000,000 ordinary shares were issued. The constitution allows the directors to apply excess application money to the allotment account. All outstanding allotment money was received by the due date, and share issue costs of \$10,000 were paid on this date.

On 30 June 2016, a 10 cent ordinary dividend was declared and approved. This dividend was subsequently paid on 1 August 2016.

On 1 October 2016, ABC Ltd offered additional ordinary shares to ordinary shareholders through a 1 for 10 rights issue. The terms of the rights issue included an issue price of \$3.50 per share. All ordinary shareholders took up the offer.

On 31 January 2017, ABC Ltd paid an ordinary interim dividend of 10 cents per share.

Required

Prepare the journal entries to record the transactions of ABC Ltd for the events outlined above. Narrations are not required.

Question Two

Selected financial statements of Red Robin Ltd are shown below.

RED ROBIN LTD			
Statements of Financial Position			
as at 30 June			
	2017		2016
Assets			
Cash at bank	\$ 43,000	\$	62,000
Accounts receivable	84,500		76,000
Inventory	113,500		124,000
Land	25,000		62,500
Buildings	265,000		137,500
Accumulated depn – buildings	(100,000)		(85,000)
Plant and equipment	40,000		40,000
Accumulated depn – plant & equip	<u>(10,000)</u>		<u>(5,000)</u>
Total assets	\$ 461,000	\$	<u>412,000</u>
Liabilities			
Accounts payable	\$ 67,000	\$	60,500
Interest payable	250		750
Provision for employee benefits	3,000		8,750
Long-term loan	66,250		45,000
Equity			
Share capital	125,000		125,000
Retained earnings	<u>199,500</u>		<u>172,000</u>
Total liabilities and equity	\$ 461,000	\$	<u>412,000</u>

RED ROBIN LTD		
Income Statement		
for the year ended 30 June 2017		
Income		
Sales		\$ 443,500
Less: Expenses:		
Cost of sales	\$ 283,000	
Employee expenses	98,000	
Interest expense	5,000	
Loss on the sale of land	6,250	
Depreciation expense – buildings	15,000	
Depreciation expense - plant and equipment	<u>5,000</u>	<u>412,250</u>
Profit for the year		\$ <u>31,250</u>

Additional information

During the year ended 30 June 2017, the following events took place:

(a) Cash dividends were paid to shareholders.

- ### Required

[illegible]

Question Three

a) Why is the current tax liability at the end of the reporting period not always equal to the income tax expense for the period?

b) Read the question below and answer its requirements.

Net assets information from the statement of financial position of SI Ltd as at 30 June 2017 and 30 June 2016 are as follows:

SI Ltd
Statement of financial position

	2017	2016
Assets		
Cash	\$ 36,000	\$ 30,000
Inventory	87,000	65,000
Accounts receivable	153,000	120,000
Allowance for doubtful debts	(30,000)	(20,000)
Plant	270,000	270,000
Accumulated depreciation - Plant	(71,000)	(54,000)
Machinery	850,000	850,000
Accumulated depreciation - Machinery	(255,000)	(170,000)
Goodwill (net)	60,000	77,000
Deferred tax asset	?	23,000
Liabilities		
Payables	285,000	274,000
Provision for long service leave	30,000	15,000
Provision for warranty	70,000	40,000
Deferred tax liability	?	32,000

Additional information:

- Accumulated depreciation on Plant at 30 June 2017 for tax purposes was 111,000.
- The carrying amount of Machinery at 30 June 2017 for tax purposes was 515,000.
- Goodwill is not deductible for tax purposes.
- The corporate tax rate is 30%.

Required:

- (a) Complete the deferred tax worksheet on the following page.
- (b) Provide the journal entry to record the adjustment to the deferred tax asset and the deferred tax liability accounts for the year ended 30 June 2017 on the following page. Do not offset the deferred tax accounts.

Deferred Tax Worksheet at 30 June 2017				
	Carrying Amount	Tax Base	Taxable Temporary Differences	Deductible Temporary Differences
Assets				
Liabilities				
Total Temporary differences				
Excluded temporary differences				
Net temporary differences				
Deferred tax liability				
Deferred tax asset				
Beginning balances				
Adjustments				
Increase (decrease) for the year				

Journal entry:

Account	Dr	Cr